ORIGINAL

0000141217

Thomas L. Mumaw
Melissa M. Krueger
Pinnacle West Capital Corporation
400 North 5th Street, MS 8695
Phoenix, Arizona 85004
Tel: (602) 250-3630
Fax: (602) 250-3393
E-Mail: Thomas.Mumaw@pinnaclewest.com
Melissa.Krueger@pinnaclewest.com

Attorneys for Arizona Public Service Company

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE, Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

DSM

IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR APPROVAL OF ITS 2013 DEMAND SIDE MANAGEMENT IMPLEMENTATION PLAN	DOCKET NO. E-01345A-12-0224 **APPLICATION FOR APPROVAL OF ARIZONA PUBLIC SERVICE COMPANY'S PERFROMANCE INCENTIVE PROPOSAL**

Arizona Public Service Company ("APS" or "Company") provides its recommendations for changes to the Company's existing Performance Incentive ("PI"). Pursuant to Section 9.14(d) of APS's most recent Rate Case ("Settlement Agreement"),[1] APS was ordered to:

> Work with stakeholders and Staff to develop and file for Commission consideration a new performance incentive structure by December 31, 2012 that optimizes the connection between energy efficiency, rates and utility business incentives and that creates a clear connection between the level of performance incentive and achievement of cost-effective energy savings. This rate case shall be held open to allow for Commission approval of including the new performance incentive structure in the DSM Adjustment Clause. At that time, the Commission should determine the plan year for

[1] Commission Decision No. 73183 (May 24, 2012). In this decision, APS was also ordered to file its revised PI proposal for Commission review in APS's 2013 Energy Efficiency Implementation Plan Proceeding.

which the new performance incentive structure shall apply. The Signatories shall recommend that any new performance incentive structure adopted should apply to the first plan year filed after its adoption. Decision No. 73183 (emphasis added).

In developing the revised PI structure, APS obtained feedback from Arizona Corporation Commission ("ACC" or "Commission") Staff, the Residential Utility Consumer Office ("RUCO"), Southwest Energy Efficiency Project ("SWEEP"), Western Resource Advocates ("WRA"), Arizonans for Electric Choice and Competition ("AECC"), Freeport McMoRan, and other industry stakeholders.

Consistent with the terms of the Settlement Agreement, APS requests that any new PI structure adopted by the Commission for APS go into effect no earlier than the 2014 DSM Implementation Plan. The proposed PI structure meets the goals outlined in the Settlement Agreement by creating a clear connection between the level of PI and achievement of cost effective energy savings. APS's proposed PI structure is (i) based on a share of net benefits achieved for customers, and (ii) capped at a maximum amount per kWh saved.

I. APS STAKEHOLDER PROCESS AND PI EVALUATION

As part of the stakeholder process, APS conducted two PI Stakeholder Meetings. The first was held on November 1, 2012 and the second was held on November 19, 2012. APS provided notice of its PI Stakeholder Meetings to parties of record to APS's most recent rate case Settlement Agreement,[2] the DSM Collaborative Group, and other parties who expressed interest. APS also provided notice in APS's recent rate case Settlement Agreement docket.

At the first meeting,[3] APS described the various PI structures used in other jurisdictions and described the current APS PI structure in context with the other approaches. APS identified the predominant PI structures employed in other states; including a "flat" incentive structure, "per kWh saved," "% of spending," "% of net

[2] Docket No. E-01345A-11-0224.
[3] APS also invited all interested parties to present at the first meeting.

benefits," and "rate of return."[4] The "% of net benefits" structure is the most commonly used PI structure at this time. In addition, SWEEP presented proposals and analyses recommending specific PI structures. For more detail, please see Exhibit A for copies of all the presentations submitted at the November 1, 2012 meeting.

As requested by Staff in the first meeting, at the second meeting, APS presented an analysis of the pros and cons of the various PI structures that had been discussed at the November 1 meeting. Each structure was evaluated to determine consistency with the requirements of the Commission's Order approving the Settlement Agreement. Specifically, APS analyzed the extent to which the various structures created a clear connection between the level of PI and the achievement of cost effective energy efficiency, among other pros and cons. It is important to note that any base PI structure can be modified to include additional elements to achieve particular goals. Table 1 summarizes the incentive structure comparison.

Table 1

Incentive Structure Comparisons

Finally, APS was asked to run a number of different scenarios through each PI

Mechanism	Tied to Savings	Tied to Customer Benefits	Tied to Cost Effectiveness
% of Net Benefits	Y	Y	Y
Flat	Y	N	N
Per kWh	Y	N	N
% of Spending	N	N	N
Rate of Return	N	N	N

[4] In the first Stakeholder meeting, Staff requested APS to provide analyses regarding a rate of return PI structure. APS does not endorse the Rate of Return model as a PI structure, but instead it is analogous to a financing mechanism.

structure to compare the results. Scenarios included: savings achievement exactly at goal, savings at 10% above goal, savings at 10% below goal, and savings exactly at goal but with higher spending (*i.e.* higher cost per kWh saved). Additional details about this analysis can be found in APS's November 19, 2012, presentation provided in Exhibit B. General comments received at the stakeholder meetings include:

- The proposed PI should be tied to performance.
- There should be a cap to ensure budget certainty.
- It should provide an incentive to achieve energy efficiency savings goals and to do so at the least cost to maximize cost effectiveness and customer benefits.
- It should be reasonable, but sufficient to provide an incentive to perform.
- A model consistent with treating energy efficiency resources similar to conventional resources should be considered.

II. APS PROPOSED PI STRUCTURE

The final APS PI proposal is based on the percent of net benefits created by programs with a cap based on a maximum amount per kWh saved. The proposed structure would reward performance and encourage cost effectiveness by basing the PI on the net benefits created for customers. Net benefits are maximized by achieving the highest savings possible for the lowest cost to customers. To provide budget certainty, APS proposes that the PI should be capped at a maximum level of $0.0125 per kWh saved. The proposed structure would be designed according to Table 2.

Table 2

APS Proposed Performance Incentive

Achievement Relative to Annual Goal Approved in APS's Energy Efficiency Implementation Plan	Performance Incentive as % of Energy Efficiency Net Benefits	Performance Incentive Cap
<85%	0%	Performance Incentive Will Not Exceed $0.0125/kWh Saved
85% to 95%	6%	
>95% to 105%	7%	
>105%	8%	

Note: The PI cap applies to the annualized incremental first year energy savings generated. All other general assumptions in calculating APS's current PI structure would also apply to APS's proposed PI.

The proposed structure is similar to the current APS PI structure, which is based upon a percentage of net benefits, but it replaces the current cap based on program spending with a cap based on a maximum dollar amount per kilowatt hour of savings. This ensures budget certainty while avoiding any incentive to increase spending to maximize the performance incentive.

The proposed PI structure is consistent with the Settlement Agreement. It is designed to appropriately incent higher savings performance and higher cost effectiveness. It maintains the same tier levels of the share of net benefits as indicated in the Settlement, but it modifies the cap structure to improve the link to savings performance and removes any direct ties to energy efficiency spending levels. It also incorporates input from the PI Stakeholder Meetings.

APS is proposing that the PI cap be set at $0.0125 per kWh saved, thus the PI would not exceed this amount regardless of the level of net benefits achieved. The PI cap is also set to be consistent with the amount of PI that was approved in APS's 2012 DSM Implementation Plan. In the event that there are any material changes to underlying goals, policies, calculations, or other material energy efficiency program parameters in the future, the PI structure and/or cap may need to be revised.

The following calculation shows how the proposed PI structure would work using the energy efficiency goals and budgets as approved in APS' 2012 DSM Implementation Plan:

- DSM Savings Goal = 524,000 MWh
- Net Benefits (estimated) = $95,000,000
- PI as Share of Net Benefits = $95,000,000 * 7% = $6,650,000
- PI Cap = 524,000,000 * $0.0125 = $6,550,000
- PI Earned (lesser of the share of net benefits or PI cap) = $6,550,000

APS proposed a draft PI structure that was circulated to all stakeholders for comment. APS received informal written comments from AECC in support of APS's proposed approach to base the PI on a share of net benefits and maintain the current tier structure. However, rather than basing the PI cap on a maximum $/kWh saved approach, AECC recommended that the PI cap should be based on a fixed percentage of the approved DSM budget (as opposed to program expenditures) in order to provide certainty as to the maximum PI payout. APS is concerned that AECC's recommended PI cap structure could be perceived as being tied to spending and therefore provides an unintended incentive to maximize program budgets. Therefore, APS did not adopt AECC's proposal.

APS also received written comments from WRA. WRA supports APS's proposed PI structure. WRA stated that the proposal is straightforward, reflects factors under the control of APS, and focuses on the best and most comprehensive economic measure – the societal net benefits of efficiency programs. In addition, WRA stated that the PI cap may need to be updated if energy savings or societal net benefit deviate significantly from the values assumed in devising the proposed structure. WRA also noted several minor ambiguities and other "housekeeping matters" in the APS proposal, and suggested some clarifying edits. These suggestions have been incorporated into the final proposal contained herein.

At the workshop, SWEEP supported either the structure proposed by APS or their proposal, RUCO indicated a performance incentive should be based on cost effective energy savings and benefits, and Staff supported recovering energy efficiency costs through base rates in the same manner as conventional resources are recovered today.

III. CONCLUSION

For the reasons discussed above, APS requests that the Commission approve APS's proposed PI Structure as discussed herein and that it would be approved prior to the filing of APS's 2014 DSM Implementation Plan so that it could be incorporated into APS's 2014 planning assumptions and calcultions.

RESPECTFULLY SUBMITTED this 31st day of December, 2012.

By: _____
Thomas L. Mumaw
Melissa M. Krueger
Attorneys for Arizona Public Service Company

ORIGINAL and thirteen (13) copies of the foregoing filed this 31st day of December, 2012, with:

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Copies of the foregoing delivered this 31st day of December, 2012 to:

Janice Alward
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

Lyn Farmer
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

Steve Olea
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

Daniel Pozefsky
RUCO
1110 W. Washington
Phoenix, AZ 85007

_____

Exhibit A

APS EE Performance Incentive Stakeholder Meeting

November 1, 2012

Agenda

- Introduction and objectives
- What is an EE performance incentive?
- Why is it needed?
- Performance incentive structures
- What does APS currently have in place?
- APS "straw man" proposal
- Next steps/timeline

Introduction/Objectives

- In ACC Decision No. 73183, APS was ordered…
  - "APS shall develop, with the involvement of Staff and interested parties, and file a revised Performance Incentive for Commission review in the 2013 Energy Efficiency Implementation Plan proceeding".
  - "APS will work with stakeholders and Staff to develop and file for Commission consideration a new performance incentive structure by December 31, 2012 *that optimizes the connection between energy efficiency, rates and utility business incentives and that creates a clear connection between the level of performance incentive and achievement of cost-effective energy savings".*

aps

EE and Utility Business Model

- EE is different than traditional resources, so it requires a different model
- What is needed?
  - Timely recovery of EE program costs
  - Adjustment for lost revenues to cover fixed costs
  - Opportunity for earnings

aps

EE Performance Incentives – What are They?

- When properly designed, they enhance EE benefits for customers by providing an incentive to maximize energy savings while minimizing costs
- Allows utility to retain a share of the economic benefits created for customers from cost-effective EE programs

aps

EE Performance Incentives – What They Are Not

- They ARE NOT meant to cover lost revenues
- They ARE NOT designed to reward higher spending
- They ARE NOT designed to compensate for lag in cost recovery

aps

Examples of Incentive Structures

- **"Flat"** – Predetermined amount of incentive $ available annually
- **"Per kWh Saved"** – Amount of annual incentive based on $/kWh saved
- **"% of Spending"** – Incentive based on % of EE spending
- **"% of Net Benefits"** – Incentive based on % of net benefits (capped or uncapped)
- **"Rate of Return"** – EE costs treated as a capital expense and earn a rate of return

aps

Comparing Incentive Structures

Incentive Structure	Tied to EE Savings?	Tied to Cost Effectiveness?
Flat	Yes, to a point	No
Per KWh	Yes	No
% of Spending	Yes, to a point	No
% of Net Benefits	Yes	Yes
Rate of Return	No	No

Order Language:
"Create a clear connection between the level of performance incentive and achievement of cost-effective energy savings"

aps

Calculating the Performance Incentive as % of Net Benefits

- Based on a share of program net benefits:

Net Benefits = Benefits-Costs

- **Benefits** =
  - Avoided cost of capacity and energy
- **Costs** =
  - Customer incremental costs + Program costs

aps

Current APS Structure

- Based on a % of net benefits, capped by % of program spending

Achievement Relative to Goal	Performance Incentive as % of EE Net Benefits	Performance Incentive Capped as % of EE Costs
<85%	0%	0%
85% to 95%	6%	12%
96% to 105%	7%	14%
>105%	8%	16%

aps

Higher Spending Does Not Result in a Higher Incentive

	~2011 APS Plan	Hypothetical ($10MM higher spending)
Total EE/DSM Program Cost	$79 million	$89 million
Societal Benefits	$212 million	$212 million
Societal Costs	$89 million	$99 million
Net Benefits	$123 million	$113 million
7% of Net Benefits	$8.6 million	**$7.9 million**
14% of EE Program Costs	**$8.4 million**	$9.8 million

aps

APS Straw Man Proposal

- Performance incentive based on share of net benefits, with flat spending cap

Achievement Relative to the Goal	Performance Incentive as % of EE Net Benefits	Performance Incentive Flat Cap
<85%	0%	Performance Incentive Will Not Exceed $## million.
85% to 95%	6%	
96% to 105%	7%	
>105%	8%	

aps

Next Steps

- Please provide feedback on the APS proposal
- We welcome your ideas and input

Thank You!

Designing Effective Performance Incentives

Jeff Schlegel & Ellen Zuckerman

SWEEP

APS 2010 Rate Case Demand Side Management
Performance Incentive Stakeholder Meeting

November 1, 2012

SWEEP Position on Performance Incentives (PI)

- SWEEP supports appropriately designed performance incentives
- Important tool for encouraging and steering effective, cost-effective EE programs
- Important policy instrument to influence and direct energy efficiency outcomes

SWEEP's Performance Incentive Objectives

- Encourage the utility to pursue cost-effective EE and achieve other goals set by the Commission.
- Be designed to avoid any perverse incentives.
- Be based on clearly-defined goals and activities that are sufficiently monitored, quantified, and verified.
- Be available only for activities for which the utility plays a distinct and clear role in bringing about the desired outcome.
- Be kept as low as possible while balancing and meeting the objectives and principles mentioned above.

Performance incentives are *performance-based*: The utility must perform and achieve the objectives in order to earn an incentive.

Commission Directives on EE Performance Incentives

- ***"We find that SWEEP'S list of Performance Incentive objectives is a good starting point for discussions about modifications to the Performance Incentive."***

  -- ACC Decision Number 73183

- ***"Performance incentives [should be] tied to the achievement of cost-effective energy savings."***

  -- ACC Decision Number 73183

Performance Incentives – Two Key Issues

1. Performance incentive ***level*** –
   $ amount of the performance incentive

2. Performance incentive ***mechanism*** –
   How the performance incentive works and is earned, including the components of the incentive

Performance Incentive Level

- Performance incentive levels ($ amounts) are commonly expressed in two ways:
  - PI $ as a percent of EE program costs
  - PI $ as a percent of EE program net benefits (shared "savings" or shared net benefits)
- PI levels as a % of program costs range from 2% to ~30%, a wide range
- Also important to consider the level of goals and savings targets when considering the $ level of PI

Table 1. Approved Shareholder Incentives

State	Entity (Year Approved)	Regulatory Framework			Shareholder Incentive Features					
		Explicit Efficiency Target	Direct Cost Recovery	Earnings Erosion Mechanism	Utility Specific Target	Pre-Tax Incentive		Threshold or Scaling	Cap	
						Program Costs	Shared Savings		Basis	Level
		Distribution-Only Utilities								
CT	Connecticut utilities (2007)	Yes	SBC	Decoupling	1.50%	4.2%	0.8%	Yes	PC-PT	8%
NH	PSNH (2000)	Yes	SBC	None	1.50%	8.0%	2.6%	Yes	PC-PT	12%
NY	New York utilities (2008)	Yes	SBC	Decoupling	0.70%	9.0%	6.9%	No	Fixed	3.9 ¢/kWh
OH	Duke Energy Ohio (2008)	Yes	TR	LRAM	0.80%	10.0%	7.2%	Yes	PC-AT	15%
CA	PG&E (2007)	Yes	SBC / TR	Decoupling	0.90%	13.9%	10.0%	Yes	Fixed	$180 m
CA	SDG&E (2007)	Yes	SBC / TR	Decoupling	0.90%	13.8%	10.1%	Yes	Fixed	$50 m
CA	SCE (2007)	Yes	SBC / TR	Decoupling	0.90%	23.5%	10.9%	Yes	Fixed	$200 m
		Vertically Integrated Utilities								
WA	PSE (2007)	Yes	TR	None	1.26%	8.3%	3.0%	Yes	No	n.a.
CO	Xcel - PS CO (2008)	Yes	TR	$2 m offset	1.15%	2.0%	4.0%	Yes	PC-PT	20%
MN	Xcel – NSP (2000)	Yes	TR	None	1.50%	11.2%	2.5%	Yes	PC-PT	30%
MI	Consumers Energy (2009)	Yes	TR / CC	Decoupling	0.84%	12.0%	3.4%	Yes	SS-PT	25%
MI	DTE (2009)	Yes	TR / CC	Decoupling	0.75%	12.0%	5.9%	Yes	SS-PT	25%
AZ	APS (2010)	Yes	BR	Deferred	1.50%	14.0%	not avail.	Yes	PC-PT	14%
IN	Duke Energy IN (2010)	Yes	TR	LRAM	0.86%	18.3%	17.9%	Yes	PC-AT	15%
NC	Duke Energy Cs (2010)	Option	TR	LRAM	0.75%	23.8%	24.5%	Yes	PC-AT	15%
SC	Duke Energy Cs (2010)	No	TR	LRAM	0.75%	23.8%	24.5%	Yes	PC-AT	15%
NC	Progress Energy Cs (2009)	Option	TR / CC	LRAM	0.30%	29.0%	37.0%	No	SS-AT	8% / 13%
SC	Progress Energy Cs (2009)	No	TR / CC	LRAM	0.30%	29.0%	37.0%	No	SS-AT	8% / 13%

Source: Analysis of commission orders, and related testimony and reports by authors. Workbook, including sources, available from the authors. Further details regarding state energy efficiency regulatory frameworks are available from the State Energy Efficiency Database maintained by ACEEE on its website and the Edison Foundation Institute for Electric Efficiency.

Excerpt from: "Seeking Consistency in Performance Incentives for Utility Energy Efficiency Programs" Franks et al, 2010; ACEEE Summer Study on Energy Efficiency in Buildings

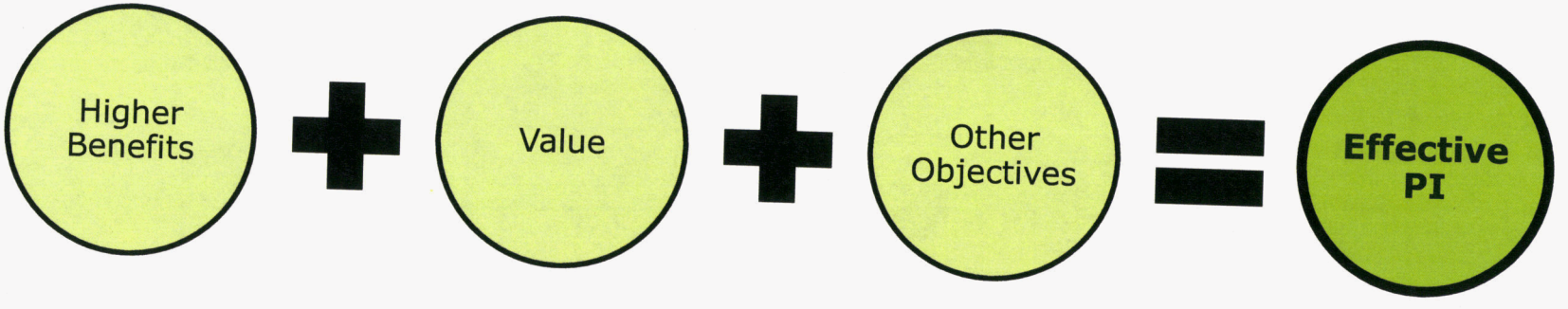
Table 2. Reference for Abbreviations in Table 1

Column Title	Indicator	Definition
Explicit Efficiency Target	Yes	Legislative energy efficiency resource standard or directive to utility commission to establish such a standard
	Option	Compliance option in a state renewable energy standard
	No	Energy efficiency programs authorized under a non-directive process
Direct Cost Recovery	SBC	System Benefit Charge
	BR	Base Rate Recovery
	TR	Tariff Rider
	CC	Cost Capitalization
Earnings Erosion Mechanism	Decoupled	Full or partial revenue decoupling applying to general rates
	Deferred	Regulator deferred action to a future rate case
	Offset	Fixed amount of compensation to offset lost revenues
	LRAM	Lost revenue adjustment mechanism
Utility Goal	% Savings	Highest energy savings target or forecast associated with the shareholder incentive mechanism; intended to be a general indicator of program scale
Pre-tax Incentive	Program Costs	Shareholder incentive expressed as a percentage of total program costs
	Shared Savings	Shareholder incentive expressed as a percentage of net benefits
Scaled	Yes/No	The presence of a tiered or scaled incentive structure linked to performance, however measured, including minimum threshold for incentive eligibility
Cap	Basis and Level	Many states have a secondary cap to the performance-based shareholder incentive. If so, this secondary cap is described here. If not, then the basis and maximum level for the shareholder incentive mechanism is described here. The basis may be a percentage of program costs (PC), shared savings (SS), or a fixed amount, and may be calculated on a pre-tax (PT) or after-tax (AT) basis.

Source: Authors development of survey structure

SWEEP's Proposal for Performance Incentive Mechanism: A Three Component Approach

- The PI mechanism should incorporate three components focused on three key objectives:
  1. Higher benefits, more energy savings
  2. Value and cost-efficient investments
  3. Other specific performance objectives (e.g. deeper savings, low income, etc.)



Component 1:
Promote Higher Benefits, More Savings

- **Impact**: Drives utility to maximize total benefits and energy savings for customers

- **Metric**: Total Benefits = Economic value of energy savings + other benefits (e.g., water savings, avoided pollution)

Component 2:
Promote Value & Cost-Efficient Investment

- **Impact**: Drives utility to maximize total net benefits (benefits exceeding costs) and make cost-efficient investments

- **Metric**: Total Net Benefits = Total Benefits - Total Costs

[Two potential options: costs could be societal costs or program (ratepayer) costs]

Component 3:
Other Specific Performance Objectives

- **Impact**: Drives utility behavior related to specific priorities that are not adequately incented by the other two components.

- **Example Metrics**:
  - Deeper savings (e.g., higher % savings)
  - Low income program performance
  - Engagement with target audiences: small business, renters, multi-family, etc.
  - Pursuit of combined heat and power

Performance Incentive Summary

Component	Calculation	Impact
Benefits	Payout rate for each $ of benefit achieved Range: 75% to 125% of goal	• Rewards achievement of benefits and energy savings
Value	Payout rate for each $ of net benefit achieved (benefits-costs) Range: 75% to 125% of goal	• Rewards good budgetary management • Rewards cost-efficient use of ratepayer funding
Specific Performance	Incentives for specific defined outcomes Range: 75% to 125% of goal	• Rewards specific initiatives and outcomes that require more focus or that do not fit in well with the benefits or value components (e.g., deeper savings, low income, target audiences, future strategies)

Weights of the Three PI Components

One example of PI component weights:

- Benefits: 50%
- Value: 40%
- Specific Performance: 10%

Exhibit B

APS EE Performance Incentive Stakeholder Meeting #2 Revised

November 19, 2012

Preliminary Working Draft

aps

Agenda

- Introduction and Objectives
- Incentive Structures – Pros and Cons
- Hypothetical Scenarios
- Other Ideas and Input
- Next Steps

Introduction/Objectives

- In ACC Decision No. 73183, APS was ordered…
  - "APS shall develop, with the involvement of Staff and interested parties, and file a revised Performance Incentive for Commission review in the 2013 Energy Efficiency Implementation Plan proceeding".
  - "APS will work with stakeholders and Staff to develop and file for Commission consideration a new performance incentive structure by December 31, 2012 *that optimizes the connection between energy efficiency, rates and utility business incentives and that creates a clear connection between the level of performance incentive and achievement of cost-effective energy savings".*

Performance Incentive Structures

Pros and Cons

Examples of Incentive Structures

- **"Flat"** – Predetermined amount of incentive $ available annually
- **"Per kWh Saved"** – Amount of annual incentive based on ¢/kWh saved
- **"% of Spending"** – Incentive based on % of EE spending
- **"% of Net Benefits"** – Incentive based on % of net benefits (capped or uncapped)
- **"Rate of Return"** – EE costs treated as a capital expense and earn a rate of return

"Flat" Incentive Structure

Predetermined incentive amount earned for achieving savings goal

PROS	CONS
•Simple •Provides budget certainty	•No incentive to exceed goal •Not tied to cost effectiveness

"Per kWh Saved" Structure

Predetermined incentive amount awarded per kWh of savings achieved	
PROS	**CONS**
•Simple •Clear incentive tied to savings •Rewards higher levels of achievement	•Not tied to cost effectiveness •Without a cap there is not cost certainty

"% of Spending" Structure

Incentive is earned based on a percent of total EE program spending

PROS	CONS
•Simple •Easily measured •Can be tiered to reward higher savings	•Incents "wrong" metric •Not tied to cost effectiveness •Could reward higher spending

"% of Net Benefits" Structure

Incentive is earned based on a percent of net benefits generated

PROS	CONS
•Incents higher savings performance •Incents higher cost effectiveness •Consistent with ACC Decision No. 73183 •Most commonly used structure nationally	•May be harder to explain and understand •Without a spending cap there is less cost certainty

"Rate of Return" Structure

EE costs are treated as a capital expense and earn a rate of return

PROS	CONS
•Can help lessen short-term rate impacts (in case of increasing EE costs)	•Not tied to EE savings performance •Not tied to higher cost effectiveness •Due to carrying cost, results in increased EE costs per kWh saved •Costs continue after a program is discontinued

Incentive Structure Comparison

Mechanism	Tied to Savings	Tied to Customer Benefits	Tied to Cost Effectiveness
% of Net Benefits	Y	Y	Y
Flat	Y	N	N
Per kWh	Y	N	N
% of Spending	N	N	N
Rate of Return	N	N	N

Performance Incentive Hypothetical Scenarios

Scenario Assumptions

- EE goal is 530,000 annual MWh of energy savings
- Assume annual EE program spending level of $60 million
- Assume annual net benefits of $65 million

Performance Incentive Scenarios

- Scenario A = Savings exactly at goal
- Scenario B = Savings at 10% below goal
- Scenario C = Savings at 10% above goal
- Scenario D = Savings exactly at goal, but additional $5 million in spending

APS Structure

- Based on a % of net benefits, capped by % of program spending

Achievement Relative to Goal	Performance Incentive as % of EE Net Benefits	Performance Incentive Capped as % of EE Costs
<85%	0%	0%
85% to 95%	6%	12%
96% to 105%	7%	14%
>105%	8%	16%

APS Structure Scenarios

EE Portfolio Performance	EE Savings (Annual MWh)	EE Spending	Net Benefits	Incentive Tier	Incentive Amount	Notes
At goal	530,000	$60,000,000	$65,000,000	7% net benefits or 14% of spending	**$4,550,000**	Base level
10% under goal	477,000	$60,000,000	$52,500,000	6% net benefits or 12% of spending	**$3,150,000**	Lower incentive due to lower savings and net benefits
10% above goal	583,000	$60,000,000	$77,500,000	8% net benefits or 16% of spending	**$6,200,000**	Higher incentive due to higher savings and net benefits
At goal, $5MM higher spending	530,000	$65,000,000	$60,000,000	7% net benefits or 14% of spending	**$4,200,000**	Lower incentive due to reduced cost efficiency

SWEEP Proposed Structure Scenarios

EE Performance Level	EE Savings (Annual MWh)	EE Spending	Total Benefits	Net Benefits	Share of Benefits	Share of Net Benefis	Metrics	Incentive Amount
At goal	530,000	$60,000,000	$125,000,000	$65,000,000	$2,275,000	$1,820,000	$455,000	**$4,550,000**
10% under goal	477,000	$60,000,000	$112,500,000	$52,500,000	$2,047,500	$1,470,000	$409,500	**$3,927,000**
10% above goal	583,000	$60,000,000	$137,500,000	$77,500,000	$2,502,500	$2,170,000	$500,500	**$5,173,000**
At goal, $5MM higher spending	530,000	$65,000,000	$125,000,000	$60,000,000	$2,275,000	$1,680,000	$455,000	**$4,410,000**

Flat Structure Scenarios

EE Performance Level	EE Savings (Annual MWh)	EE Spending	Incentive Amount
At goal	530,000	$60,000,000	**$4,550,000**
10% under goal	477,000	$60,000,000	**$0**
10% above goal	583,000	$60,000,000	**$4,550,000**
At goal, $5 million higher spending	530,000	$65,000,000	**$4,550,000**

Per MWh Structure Scenarios

EE Performance Level	EE Spending	EE Savings (Annual MWh)	Incentive Tier ($/Mwh)	Incentive Amount
At goal	$60,000,000	530,000	$8.58	**$4,550,000**
10% under goal	$60,000,000	477,000	$8.58	**$4,092,660**
10% above goal	$60,000,000	583,000	$8.58	**$5,002,140**
At goal, $5 million higher spending	$65,000,000	530,000	$8.58	**$4,550,000**

% Spending Structure Scenarios

EE Performance Level	EE Spending	EE Savings (Annual MWh)	Incentive Tier (% Spend)	Incentive Amount
At goal	$60,000,000	530,000	7.58%	**$4,550,000**
10% under goal	$60,000,000	477,000	7.58%	**$4,550,000**
10% above goal	$60,000,000	583,000	7.58%	**$4,550,000**
At goal, $5 million higher spending	$65,000,000	530,000	7.58%	**$4,927,000**

Rate of Return Structure Scenarios

EE Performance Level	EE Spending	EE Savings (Annual MWh)	PI Rev. Requirement as % of Spend	Incentive Amount
At goal	$60,000,000	530,000	7.58%	**$4,550,000**
10% under goal	$60,000,000	477,000	7.58%	**$4,550,000**
10% above goal	$60,000,000	583,000	7.58%	**$4,550,000**
At goal, $5 million higher spending	$65,000,000	530,000	7.58%	**$4,927,000**

Concurrent Recovery	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Total**
Recovery of EE/DSM program costs	$ 60	$ 60	$ 60	$ 60	$ 60	$ -	$ -	$ -	$ 300
Incentive (7% of $65m of net benefits)	4.6	4.6	4.6	4.6	4.6	-	-	-	23
Total DSM adjustor revenues	**65**	**65**	**65**	**65**	**65**	**-**	**-**	**-**	**323**
4 Year Recovery									
Revenues for recovery of program costs	15	30	45	60	60	45	30	15	300
Carrying cost	2	4	6	6	6	5	2	1	32
ROE premium/performance incentive	1	3	4	5	5	3	2	0	23
Total DSM adjustor revenues	**18**	**37**	**55**	**71**	**71**	**53**	**34**	**16**	**355**

Incentive Structure Comparison

EE Performance/Incentive Level	Current APS	SWEEP Proposal	Flat	Per Mwh	% Spend	Rate of Return
At goal	$4,550,000	$4,550,000	$4,550,000	$4,550,000	$4,550,000	$4,550,000
10% under goal	$3,150,000	$3,927,000	$0	$4,092,660	$4,550,000	$4,550,000
10% above goal	$6,200,000	$5,173,000	$4,550,000	$5,002,140	$4,550,000	$4,550,000
At goal, $5 million higher spending	$4,200,000	$4,410,000	$4,550,000	$4,550,000	$4,927,000	$4,927,000

Participant Feedback

Next Steps

Thank You!